THE RECONSTRUCTION OF ECONOMIC AND FISCAL POLICY IN CANADA

STATEMENT BY

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W. DARCY McKEOUGH

TREASURER OF ONTARIO AND
MINISTER OF ECONOMICS

TO THE

MEETING OF THE MINISTERS OF FINANCE

OTTAWA, NOVEMBER 1–2, 1971

DEPARTMENT OF TREASURY AND ECONOMICS

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INTRODUCTION

The Government of Ontario believes that Canada is faced with a near breakdown in the structure of economic and fiscal policy. This condition is seriously impeding the ability of federal and provincial governments to deal with the economic and social problems confronting the nation. Support for this contention is provided by the current underperformance of the economy, the high level of unemployment, the lack of noticeable progress in reducing inter-regional economic disparities, and the absence of a national strategy to meet challenges on the international front. We believe that this breakdown can be attributed directly to a deterioration in intergovernmental fiscal and financial arrangements. It is these arrangements which determine the distribution of fiscal resources among governments and provide the framework within which those resources are brought to bear on our problems.

On the one hand, there has been a failure to modernize the system of intergovernmental policy co-ordination in line with changing conditions within the government sector and in the economy generally. On the other hand, the structure has actually deteriorated in recent years as a result of, for example, the rejection of the 1966 Tax Structure Committee Report, the conduct of national tax reform and the federal government's moves in the area of shared-cost programs.

At the outset, therefore, the Ontario Government believes that the purpose of this Conference of Finance Ministers should be

nothing less than to lay the foundations for a fundamental reconstruction of national objectives and economic policy systems in Canada. This makes it imperative that the items on the agenda of this conference should not be treated on a piecemeal basis, or as a list of assorted housekeeping items in intergovernmental finance. Rather, it is imperative that they should be viewed as component parts of the total framework of intergovernmental policy co-ordination.

We realize, of course, that a fundamental reappraisal and reconstruction of the foundations of federal-provincial finance and policy co-ordination cannot be achieved overnight. However, we are convinced that it is possible to advance a series of definite proposals for approval at the forthcoming Conference of First Ministers to serve as a basis for a concentrated effort to complete the process within the shortest possible time thereafter. We believe this is eminently feasible if we draw on the body of analyses and proposals which have been made concerning intergovernmental policy co-ordination in the last few years.

Since the rejection of the 1966 Tax Structure Committee Report and the abandonment of the process of adjusting federal-provincial tax sharing in line with changes in relative expenditure responsibilities, the Government of Ontario has advanced a series of considered proposals for fiscal policy co-ordination, integrated tax reform, and social security design. Ontario has not been alone in this. Many other provincial governments have shown equal concern and have also

advanced proposals on the same questions. Altogether, these provincial proposals represent a comprehensive consensus on the directions in which the structure of intergovernmental finance should be modernized. Unless we move in this direction and develop an effective intergovernmental framework, governments in Canada will continue to dissipate their energies and fall short of dealing with urgent social and economic problems. Because of the obvious interconnection of the items on the agenda of this conference, it is imperative that they be treated in a unified fashion.

I ECONOMIC POLICY CO-ORDINATION

The present economic situation and the chaotic fiscal events of the past two years justify a fundamental re-examination of the role and effectiveness of the regular meetings of Ministers of Finance. Without a reconstitution of the objectives and the technical co-ordinating apparatus of these meetings, the goal of harmonized federal-provincial fiscal policies will be as elusive five years from now as it is today. The fact is we do not have a co-ordinating mechanism for fiscal policy. It has also become apparent that the major initiatives and innovations are emanating from the provincial side.

SHORT-RUN FISCAL POLICY CO-ORDINATION

1. The Breakdown in Fiscal Policy Co-ordination

Although Ontario's position regarding the co-ordination of short-run, or stabilization policies, is well documented, it would be useful to clarify that position in relation to the role of these meetings.[1] In the past two years, the federal government's fiscal

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1. See, Hon. C.S. MacNaughton, "The Public Sector and Economic Policy", Ontario Budget 1970, (Toronto: Department of Treasury and Economics); Staff Papers, "Intergovernmental Policy Co-ordination and Finance", (Toronto: Department of Treasury and Economics, May, 1970); and Hon. W. Darcy McKeough, "New Directions in Economic Policy Management in Canada", Ontario Budget 1971, (Toronto: Department of Treasury and Economics).

policy has swung dramatically from fiscal and monetary constraint to belated expansion. It has introduced broad new measures of regional differentation, and implemented programs to modify seasonal unemployment. Unfortunately, in terms of results, these federal policies have failed. We have high levels of unemployment, continuing inflation, and an external value for our dollar that prevents the maximum penetration of foreign markets. Throughout this period of volatile economic policy, the Ontario Government has stated repeatedly that fiscal policy has been "handed down" to the provinces rather than developed in a harmonized manner through these meetings.

We warned in early 1970 about excessive federal tax drag in Ontario, but the federal government was apparently not prepared to listen.[1] It persisted with the view that inflation was to be cured by slowing down the growth of new job opportunities in Ontario and other high-growth regions. That policy failed and had to be abandoned. Similarly, we warned the federal government at the end of 1970 that the business community was in a cash-flow squeeze and that action would be required to head off a decline in private investment in production facilities.[2] Events proved this judgment to be correct, but it was not until October of this year that substantive fiscal actions were taken by the federal government to use its tax flexibility to shore up the business and consumer sectors.

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1. See, Hon. C.S. MacNaughton, "The Structure of Public Finance in Ontario", Ontario Budget 1970, op. cit.

2. Discussions at the Meeting of the Continuing Committee of Officials on Fiscal and Economic Matters, Ottawa, Nov. 25-26, 1970.

If these meetings have not been able to help avoid these massive problems in fiscal policy co-ordination, then clearly they have to be reconstituted in a manner that will realize the objectives they were designed to achieve.

Because of the deficiencies in the performance of federal fiscal policies, the Ontario Government was obliged to assume a major role in reinforcing the Ontario economy. The dimensions of our initiatives are easily portrayed in financial terms. In the Ontario Budget of April 1971, we introduced a fiscal plan involving a record deficit of over four hundred million dollars and an expansionary fiscal swing of over three hundred million dollars from the previous year. Because of the serious deterioration in manufacturing investment intentions, we decided to make independent use of Ontario's corporate income tax system by implementing a five per cent tax credit to stimulate new investment in machinery and equipment. Ontario's deficit for 1971-72 is now expected to increase to five hundred and fifty million dollars as a result of changes in our regular budgetary operations, our three per cent cut in provincial personal income taxes, and our special winter works programs. This will result in a net expansionary fiscal swing in 1971-72 of some $450 million.

Considering the scale of the fiscal and monetary resources available to the federal government, the Ontario Government's independent actions in economic stabilization policy in 1971-72 are comparatively and significantly larger than those of the federal budgets of June and October 1971.

It is quite appropriate that provincial governments play an active role in stabilization policies in co-operation with the federal government. However, in this instance, Ontario was obliged to implement expansionary economic policies to offset the effects of contractionary federal fiscal policies which we opposed and had no part in designing. This dramatically underscores our main point concerning the absence of fiscal policy co-ordination in Canada.

2. Seasonal Unemployment Programs

The contradictions and inconsistencies of federal fiscal policies in the past three years have been worsened by the stop-go attempts to relieve winter unemployment. Last year, at a very late date, we were invited to borrow money from the federal government under the Special Development Loan Program, to reduce exceptionally high levels of winter unemployment. In fact, the provinces were expected to assume a long-term debt obligation to the federal government to relieve the consequences of federal fiscal and monetary policies which the provinces had consistently opposed. Until mid-October, the federal government gave every indication that there would be no winter works program this year. Accordingly, the Ontario Government proceeded independently with its own programs. Since our programs have a municipal emphasis, we are co-ordinating them through our Provincial-Municipal Liaison Committee. In this way we are able to minimize bureaucratic restrictions and delays, and maximize the employment effects.

It is absolutely essential that the objectives and speedy implementation of a winter works program take precendence over administrative procedures. Federal apprehensions that the provinces cannot be trusted to act responsibly without close auditing, and restrictions on the types of expenditure, are unfounded and undermine the prospects for effective co-operation. The Ontario Government has demonstrated, through its large-scale discretionary fiscal policies in the past two years, that it has the capacity and desire to act as a responsible and effective partner with the federal government in the conduct of economic stabilization policies.

We are pleased that the federal government recognized in mid-October the urgency of the unemployment situation. But, we are again profoundly disappointed with the rigidities and the stop-go nature of the federal programs that were announced, particularly the Special Development Loans. The confinement of these programs to capital works is bound to defeat the objective of finding jobs for the large number of unskilled male and female workers who are unemployed.

The Local Initiatives Program, which has two parts -- municipalities and community organizations -- is destined to be a substantially disjointed and inefficient device. The bureaucratic overload and the lack of clarity of intentions built into the municipal projects portion make it difficult for us to see a meaningful role for the Ontario Government and its municipalities in this area.

In the whole matter of seasonal employment, we wish to make three simple proposals which are intended to reduce the present contradictions between ends and means in the federal seasonal employment programs. First, let us jointly establish a permanent framework for on-going programs which can be accelerated or decelerated by mutual agreement each year. Second, let us agree on a fair division of financial responsibility for the programs which reflects the major role of the federal government in both long- and short-term economic planning. Third, we should agree that such a program framework would be flexible, with the minimum of central auditing and the maximum possible provincial-municipal autonomy. If this kind of framework cannot be established, then the federal government should be prepared to declare itself solely responsible for seasonal employment policies, to take action independently, and to relieve the provincial-municipal sector of the burden. However, whatever the federal government decides, the Government of Ontario is not prepared to accept any distortionary intervention in provincial-municipal finance and operations.

3. Joint Consultation on Economic Objectives

At these meetings, the Government of Ontario has found it difficult to discern the presence of a "management-by-objectives" approach by the federal government to economic problems. The briefings which the provinces receive on the economic environment and outlook are not in any way different from the information we assemble in our own analysis or from D.B.S. reports. On important issues where

newspaper reports cannot be assumed to be reliable, as for example the current economic negotiations with the United States, we have received no briefing at all.

This particular issue is of critical importance to us as a manufacturing province, and yet, more than three months after the U.S. announcement, we still have no clear indications of what role the federal government would like us to play in conjunction with them. Clearly, if Canada is to be forced into a position of greater self-sufficiency in the provision of investment capital and a reduced role in manufacturing exports, the provinces need to know what contingency plans are available and how we relate to them. For example, are we going to have to set up an Ontario DISC program in order to keep our economy moving ahead? Or, alternatively, will the Government of Ontario be forced to change its method of taxing corporations and shift to a Value Added Tax with rebates for exports? We have this matter under study and we are fully prepared to move independently in this field if we are given no alternative.

4. Four Proposals for Implementation

We would like to make four specific recommendations for the consideration of this conference, and to be forwarded to the forthcoming meeting of First Ministers. First, we need to define more carefully the appropriate intergovernmental division of responsibilities in stabilization policy. It is not clear at the present time whether

the federal government agrees that provinces have a legitimate role to play in this area. The experience of past years suggests that provincial governments are implicitly allocated a passive, or at best reactive role.

Second, part of the failure of fiscal policies in the past two years is due to deficiencies in federal information systems. For example, two areas where we need an immediate improvement in the quality and scope of federal data are business investment activities, and employment and unemployment. Despite the D.B.S. Survey of Private and Public Investment Intentions and the National Accounts, we still have no clear quantified knowledge of what is happening in the business community with regard to its sources and uses of funds, and no up-to-date reliable estimate of how much it is investing. D.B.S. figures on investment seem particularly prone to large revisions in the National Accounts. Also, we now have a problem in determining how many people are unemployed. The labour force participation rate is blamed, but this statistical series has given similar trouble in past years. We urge the federal government to take immediate action to improve the quality and scope of both the labour force survey and the investment survey. It is not feasible to design sound fiscal policies to counteract unemployment if our knowledge of the target group is ambiguous or incomplete.

Third, as requested at the last Meeting of Finance Ministers, we need more rigorous estimates of the revenue-generating capacity of the federal tax system at different levels of economic activity.

For example, the estimates of federal revenues for 1971-72 were revised upwards by over $200 million between June and October. The Ontario Government has developed and advocated the use of full-employment budgeting in Canada as a means to this end.[1] We are not wedded to this particular technique, but whatever technique is used it must minimize the possibility of miscalculation when we adjust taxes for stabilization policy purposes. It is imperative that we jointly explore and understand the automatic stabilizing features of our revenue systems under different economic conditions.

Finally, Prime Minister Davis has proposed that the First Ministers should form a national Joint Economic Committee composed of the Ministers of Finance as their representatives.[2] We envision that our terms of reference should require us to set short- and long-term economic and social goals, and to examine regularly our progress in realizing these goals. In addition to the use of our own research staff, we should draw on the resources of outside agencies, such as the Economic Council of Canada, to help us formulate and evaluate our objectives and progress.

We would like to comment on one further aspect of ministerial consultation which is giving us some concern. It would appear, from statements in Parliament and remarks to the press, that the federal

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1. For a discussion of the full-employment budgeting technique in policy making see, Hon. W. Darcy McKeough, "New Directions in Economic Policy Management in Canada", Ontario Budget 1971, op. cit.

2. Hon. William Davis, "An Economic Strategy for Ontario", Ottawa, October 14, 1971.

government has been considering alternatives to its policy of voluntary wage and price restraint. If this policy is changed in future to one of controlled, or administered wages and prices in any sector of the economy, provincial Ministers of Finance must constitute a logical starting point for the very necessary process of prior intergovernmental consultation. It would be an explicit negation by the federal government of the value of intergovernmental fiscal policy co-ordination if such measures were introduced without prior consultation.

CO-ORDINATION OF LONG-RUN ECONOMIC GROWTH STRATEGIES

5. Present Problems

The development of a long-range strategy for maximum economic growth in Canada faces five basic problems.

1. Present federal regional development and regional income redistribution policies appear to be having very little impact in resolving the basic structural problems of low-growth regions.

2. Both the export base and the domestic industrial base of our economy are threatened by the commercial policies of our largest customer. There also appears to be some possibility that the historically open access that Canada has enjoyed to U.S. capital markets is now questioned by Washington. These two developments have very serious implications for our future economic growth and for the capacity of the total Canadian fiscal system to support extensions to existing programs for income redistribution between sectors of the economy, between individuals and between regions.

3. As a nation we have lagged seriously in the development of industrial and fiscal policies to encourage the rationalization and technical upgrading of our industries so that they can compete effectively with the large-scale producers of the U.S., Europe and Japan.

4. We have yet to develop a practical and operational policy for Canadian ownership that is capable of successful integration with a policy of maximum long-run growth.

5. The upheavals of tax reform, the constrictions of The Competition Act, the Labour Code, and the lack of clear federal leadership in steering Canada through the uncertainties of international trade, have created an unsound environment for long-term business expansion.

A complete review of these problems and the design of corrective policies is going to absorb a great deal of federal-provincial effort in future years. Today, our comments will be confined to some of the major items of immediate concern to Ontario.

6. The Overall Integration of Public Policies

The crisis in our trading relations with the United States gives us good reason to take a profound look at the interconnections between public policies and the capacity of the private sector to finance them. If canada is to be allocated its "share" of a United States balance-of-payments realignment, then there will have to be a re-assessment of conventional policies in areas such as income redistribution and regional subsidization. While we may be able to maintain these programs at existing levels, it cannot be taken for granted that we shall have the fiscal capacity to go on extending and expanding them indefinitely. Similarly, we shall have to re-examine our thinking in emerging policy areas, such as Canadian ownership: perhaps it should now have a higher priority. In this regard the Ontario Government strongly urges the federal government to release to the provinces, the research and findings of the Gray Report, because of its presumed influence on federal government policy. The Ontario Government has prepared a study of this area and will make it available in the very near future. In the meantime, it is essential for the provinces to have a clear understanding of the basis of present and future federal plans with regard to foreign investment in Canada.

7. The Importance of Industrial Consolidation

In the past two decades we have seen the rapid build-up of a diversified and thriving secondary manufacturing base in Canada. The continued healthy expansion of this base will proceed only if public policies discourage industrial fragmentation and provide incentives to rationalize and specialize. The Canada-U.S. auto pact marked the potential beginning of a new realization in Canada of the significance of economies of scale for an open economy which has to compete with industrial giants abroad. The benefits of that pact have been large: the productivity and wages of our auto work force increased rapidly, and our exports flourished. There has been a disappointing federal government failure to exploit the potential advantages of economies of scale in other industrial sectors. We do not necessarily need more international agreements, but we must aim to consolidate our industrial base so that Canadian businesses can compete in both domestic and foreign markets with less tariff protection at home.

8. The Competition Act

The Government of Ontario is also very concerned over the economic philosophy of The Competition Act, which seems to favour and encourage industrial fragmentation and the maintenance of small-scale, low-productivity businesses. It is inconsistent, at a time when Canada is threatened by intensified international competition,

to enact legislation that is based on a rigid and impractical view of Canada as a closed economy best served by small-scale industries. The Ontario Government's view is that we should use the tax system to deliberately encourage Canadian small business enterprise and innovation as a source of growth, competitive vigour, and higher levels of domestic ownership.[1] For this very reason, the Ontario Government strongly advocated a dynamic small business incentive which would encourage Canadian entrepreneurs to re-invest and grow in size rather than to remain small. We do not agree that Canada can afford to ignore and penalize corporate size and marketing flexibility in competing with the industrial giants of other countries.

9. The Co-ordination of Tax Policies and Social Policies

In the vital area of federal income redistribution and income security policies there is a profound lack of harmony with the tax system. It is the Ontario Government's position that Canada needs an urgent re-appraisal of the relationship between social security policies and tax policies.[2] We are very concerned by the disturbing tendency of federal policies to overburden the middle-income groups

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1. See, Hon. C.S. MacNaughton, Tax Reform and Small Business, (Toronto: Department of Treasury and Economics, December, 1970); and Staff Paper, Technical Study on Tax Reform and Small Business, (Toronto: Department of Treasury and Economics, December, 1970).

2. See, Hon. W. Darcy McKeough, Preliminary Estimation of the Marginal Impact of Increased Earnings of the Three Federal Reform Programs -- Personal Income Tax, Unemployment Insurance and the Family Income Security Plan, Meeting of Ministers of Finance, July 12-13, 1971.

in a piecemeal and hasty manner. Substantial changes in disposable income and marginal tax rates should be phased in over reasonable periods of time and checked very carefully for their economic impact if compensatory and inflationary wage demands are to be avoided.

Again, the Conference of Ministers of Finance are the natural forum for this kind of co-ordination. The federal government should understand that the Ontario Government takes a co-ordinated view of tax and social policies and wishes them to be negotiated in an integrated manner through the office of the Treasurer of Ontario and Minister of Economics, and not through a series of bilateral federal-provincial departmental discussions.

II TAX REFORM

1. Introduction

The biggest overhaul ever undertaken of the Canadian tax laws is now in its final stage. This final stage is also a crucial stage, for Canada now faces the real tests of whether its new tax provisions will work effectively, deliver meaningful reform and promote strong economic growth and development. To be candid, we are not confident on any of those scores.

Four months ago, the massive and complex Bill C-259 was introduced as the final result of over a decade of intensive effort. Subsequently, there have been reactions from many informed observers and bodies pointing out inconsistencies, difficulties and the extreme complexity of the new legislation. There has been a steady stream of explanatory papers and clarifications from the federal government, and there has been a large number of major amendments during the process of legislation itself - over 100 amendments on October 13 alone, and a further large package of changes on October 28. This record, plus the difficulties Ontario has faced in trying to comprehend and assess the new legislation, convince us that we face a long period of continuing change before the new bill can be made to work effectively.

The job of national tax reform cannot be set aside until we have developed a new tax structure in Canada which distributes total tax burdens fairly. Measured against this objective of comprehensive

redistribution of tax burdens, the new tax bill is not national tax reform either in the sense of the word national or of the word reform. National reform must embrace provincial and municipal taxes, not just federal income taxes. (It was for this reason that several provincial tax commissions were established in 1962 to work alongside the federal Carter Commission.) Real reform must also embrace our poorest families and individuals, not just those who earn enough to be liable for personal income tax. For Ontario, the highest priority in tax reform is to reduce the overall burden of taxation bearing upon these poorest taxpayers. A system of tax credits within the national income tax structure is the fairest and only effective means of achieving this wider measure of reform.

A reformed tax structure is a key component of any overall strategy for long-run economic growth in Canada and for increased participation by Canadians in our own economy and the larger world economy. It is vital, therefore, that the new tax system be in tune with current international realities and contribute positively towards more competitive Canadian businesses. Ontario is not convinced that such is the case, especially in respect of the international provisions of Bill C-259.

2. International Tax Provisions

On October 8, Prime Minister Davis recommended that the federal government postpone the implementation of its new rules for

taxing international income.[1] We wish to repeat Ontario's concern on this matter and urge that the international provisions of Bill C-259 be withdrawn for complete re-examination and revision.

The Ontario Government is expressing this concern about a dimension of tax reform that is uniquely a federal responsibility because we believe that there is a lot at stake for our economy and for the Canadian economy. Nor is our view on the new international tax provisions an isolated opinion. Similar apprehensions and concern have been voiced by major trade associations, industrial associations, informed tax practitioners, and by most of our Canadian-based international companies themselves. In every quarter, except perhaps the federal government, there is general agreement that the international provisions as they stand would be detrimental. Certainly in our day-to-day contact with Ontario businesses, we have received strong representations to this effect, a situation closely akin to the broad consensus against integration a year or so ago. We recognize that withdrawal of the new international provisions would create continuing uncertainty about the final timing and effective dates of these sections of the new Act, and that such uncertainty should be minimized. On the other hand, it would seem wiser to us to tolerate this modest uncertainty rather than persist on a headlong course whose very direction is suspect and impact certain to be adverse.

The complex new international tax rules contained in Bill C-259 go far beyond their intended objective and thus are likely to create

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1. Hon. William Davis, "The Ontario Government's Plan for Economic Stimulation", Queen's Park, Toronto, October 8, 1971.

inadvertent repercussions of serious proportions. While the aim of the new rules is to eliminate tax haven abuses and prevent diversion of income that is properly subject to Canadian tax, the application of these rules will also greatly increase taxes on legitimate foreign investment and business operations abroad. Future dividend streams from Canadian investments in developing countries, for example, will almost certainly be taxed heavily, since it is unlikely Canada can conclude tax treaties with any substantial number of these countries. Similarly, the new restrictions on dividends from foreign affiliates that can be returned tax-free to Canadian parent corporations will mean higher taxes on the foreign business operations of a great many of our international companies. These stringent Canadian rules, moreover, do not offer the mitigating provisions contained in comparable U.S. laws.

Under these new international tax provisions our Canadian-based multinational corporations, in particular, will be placed at a considerable disadvantage relative to foreign competitors. Since these large corporations generate major benefits to the Canadian economy in terms of technology, scale, specialization, and exports, such an adverse impact on their operations will retard growth and development in the economy at large. Moreover, this unattractive Canadian tax climate will not only deter the establishment in Canada of new multinational companies, but could also lead to the transfer of existing operations out of Canada. Some companies have already left Canada. In Ontario's view, this country cannot afford to lose or to retard the

expansion of our few big-league competitors. This possibility alone is reason enough to revise the international tax rules.

It would also seem prudent to adopt a flexible and less hasty approach towards formulating new international tax rules at this time of great uncertainty and rapid realignments within the international economic arena. The new U.S. economic posture and the impending U.K. entry into the European Economic Community are two new realities which will bear heavily on Canada. As well, there is clear evidence of intensified tax competition and scrambling for foreign markets among industrialized nations generally. Given this increased pressure in the world marketplace and the evidence of more liberal tax rules and devices being employed by other countries, it would be futile for Canada to persist in moving towards more restrictive tax rules. Rather, we should keep our options open until current uncertainties subside and then introduce international tax rules which allow our Canadian companies to remain fully competitive.

3. Reform of Ontario's Corporations Tax Act

For over a decade, Ontario has administered and collected its own corporations income tax. The Province has deliberately maintained close conformity between its tax and the federal corporations tax in terms of structure and design in order to preserve maximum neutrality and simplicity for Ontario's businesses. The only significant departures between our legislation and the federal legislation arose

when we did not parallel the federal disincentive on commercial buildings in 1969 and when we introduced our 5 per cent investment tax credit this year. Generally, however, we have recognized the positive merits of keeping our corporations tax system in line with the federal system, and this remains our objective for the future.

On the other hand, the new federal tax legislation - Bill C-259 - raises a serious problem for Ontario in respect of maintaining maximum conformity. At the last conference on July 12, the Ontario Government announced that it would undertake a full-scale and intensive review of the federal tax legislation in order to put itself in a sound position to legislate parallel provisions in Ontario.[1] Our Departments of Treasury and Economics and Revenue have worked continuously on this intensive review and thorough analysis and have benefited directly from the co-operation and advice by many business and private tax experts. But after four months of detailed study, we have not been able to even half digest the legal and administrative implications of the complex new Income Tax Act drawn up by Ottawa, let alone evaluate its impact on corporations and its practical workability. The 100 assorted amendments to Bill C-259 introduced on October 13 and the further substantial changes on October 28 have rendered our task that much more difficult. Moreover, there has been no attempt by the federal government to actively communicate with the provinces and keep us fully informed and abreast of the ongoing amendments to Bill C-259. If the provinces are to be co-operative partners

1. Hon. W. Darcy McKeough, "Statement on Federal Tax Reform", Meeting of Ministers of Finance, Ottawa, July 12-13, 1971.

in this joint venture of tax reform, surely we merit up-to-date, if not advance, consultation about the content of the tax legislation itself. Given this situation, we do not intend to incorporate the federal tax changes in our own tax legislation in the immediate future. In practical terms, then, Ontario's Corporations Tax Act will remain substantially unchanged for the 1972 taxation year.

Ontario cannot afford the risk of taking on faith that the new Bill C-259 is inherently sound and workable. In our view, it would be irresponsible to submit to the Ontario Legislature major changes in tax law that the Government itself has not fully appraised, understood and approved. Rather, we intend to continue our deliberate and intensive review of the new legislation until we are fully confident of its soundness, workability, impact and adequacy for Ontario. At that time we can sensibly determine Ontario's future tax policy and incorporate those federal changes with which we agree on a step-by-step basis.

4. Orderly Phase Out of Death Taxes

Following the significant strengthening of federal estate and gift taxes in 1968, it became apparent, to Ontario at least, that imposition of capital gains tax on top of existing death taxes would amount to confiscatory taxation of wealth. Consequently, we have consistently advocated a gradual phasing out of death taxes as the

capital gains system built up and matured.[1] We were pleased that Bill C-259 recognized the interdependence of these two forms of taxing capital and the need to reduce death taxes upon introduction of a capital gains tax. However, the complete reversal by the federal government from a severe gift and estate tax regime in 1968 to total withdrawal in 1972 seems unreasonable. This vacillation from one extreme to the other suggests the lack of a coherent philosophy of reform and total disregard for an orderly transition from the old system to the new.

Our July statement to the Ministers of Finance outlined the retrograde and negative implications of such an abrupt withdrawal by the federal government before the capital gains tax grips in. It would create a major structural gap and new inequities in the Canadian tax system. It would permit tax-free transfers of existing wealth by the gifting away of estates, and the postponement of capital gains taxation on death for several generations. It would intensify tax competition among provinces and lead to further balkanization of the national tax structure. Finally, it would result in major revenue losses to those provinces who have no realistic capacity to fill the tax gap left by the federal government.

The recent federal offer to continue temporarily in the estate and gift tax fields as a collecting agent for the provinces,

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1. Hon. C.S. MacNaughton, "Reform of Taxation and Government Structure in Ontario", Ontario Budget 1969, (Toronto: Department of Treasury and Economics), pp.57-58; and Hon. W. Darcy McKeough, Ontario Budget 1971, op.cit., pp.26-27.

moreover, is not good enough. First of all, it is a hypothetical offer, contingent upon agreement by four of the seven smallest provinces to levy a uniform succession duty. The offer to collect a gift tax for any province, moreover, depends entirely on first securing agreement by four provinces on succession duties. What happens if four provinces do not agree? Why is the federal government so reluctant to make available to the provinces its death tax collection capacity when this capacity must remain substantially intact over the next five years simply to process pre-1972 estates? Given the need to maintain existing personnel and apparatus for federal purposes, it would seem reasonable to utilize these collection facilities on behalf of the provinces as well. In our view, a proper compensating offer by the federal government, therefore, would be to collect its pre-1968 gift tax on behalf of any province and to collect a model succession duty on behalf of any province currently lacking independent capacity.

The Ontario Government would welcome a genuine unconditional offer of this kind, as would most of the other provinces. However, we cannot formulate sound tax policy under the hypothetical framework and uncertain conditions now existing. The Government of Ontario intends, therefore, to take steps to protect its wealth tax base by incorporating a gift tax capacity within our succession duties during the transition period until capital gains tax becomes a suitable replacement for the taxation of wealth. We intend to continue our policy of gradually reducing succession duties as capital gains

revenues build up. Within 5 years we would hope that capital gains revenues will have built up to the point where we will be able to eliminate our succession duties entirely. In this way, there should be an orderly and equitable transition from the old system to the new.

5. Comprehensive Tax Reform Through Tax Credits

The Ontario Government has stressed consistently that meaningful and comprehensive tax reform must take into account all the major taxes bearing upon taxpayers. In particular, real reform must redistribute the burden of property tax and sales tax as well as income tax. We are convinced that the income tax system is the fairest and most effective means of redistributing the burden of all taxes, by providing tax credits to relieve municipal property and provincial sales taxes. This tax credit approach extends the ability-to-pay criterion to embrace regressive provincial and municipal taxes, thereby achieving a broad dimension of reform for all Canadian taxpayers.

Ontario's policy for tax credits was first set out in our white paper on provincial-municipal tax reform in March 1968, in which we declared our intention to connect in a co-ordinated manner the provincial and municipal tax systems via a tax credit mechanism.[1] In its extensive studies and recommendations on reform of the national tax structure, following the federal white paper of November 1969, Ontario repeatedly advocated the adoption of tax credits

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1. See, "The Reform of Taxation and Government Structure in Ontario", op. cit., pp. 54-57.

rather than increased personal exemptions.[1] In a supporting staff study, Ontario demonstrated the conceptual and operational superiority of tax credits in terms of simplicity, lower revenue cost, greater flexibility and, most importantly, the ability to deliver tax relief to the millions of Canadians too poor to pay income tax.[2] The exemption approach of the new federal tax legislation, by contrast, does nothing at all for these lowest-income Canadians, at the very time that Senator Croll is searching for ways to raise these improverished citizens to a more decent standard of living. This, in our view, is a major equity flaw of the new federal tax legislation, and a tragic waste of the opportunity to achieve a wide measure of reform for the benefit of all Canadian taxpayers.

The Ontario Government, nevertheless, intends to establish a tax credit system within its own jurisdiction for the benefit of Ontario taxpayers. We indicated at the July meeting of Ministers of Finance that we would outline the details of our tax credit system as soon as possible so that it could be examined by the federal government and incorporated within the new Canada-Ontario Tax Collection Agreement. Accordingly, we are tabling at this conference a paper outlining Ontario's proposed system of property tax and sales tax credits for consideration and response by the federal government.

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1. Hon. C.S. MacNaughton, Ontario Proposals for Tax Reform in Canada, (Toronto: Department of Treasury and Economics, June, 1970, pp. 15-17.

2. Staff Paper, Effects of Ontario's Personal Income Tax Proposals, (Toronto: Department of Treasury and Economics, December, 1970), Chapter 4.

The tax credit scheme we are advancing has been designed deliberately to be understandable by taxpayers themselves, and to minimize administration and collection costs. It is simple, direct, and amenable to modification of final details should any difficulties in implementation arise. We would hope, therefore, that after discussion with the federal government, Ontario's tax credit system could be put into effect for the 1972 taxation year.

Our tax credit mechanism aims to achieve four main objectives:

- to allow systematic and progressive redistribution of the overall burden of major taxes (income tax, property tax, and sales tax) borne by individuals and families in Ontario;
- to create an efficient mechanism for refunding taxes to our poorest families and individuals in recognition of the undue burden of property tax and sales tax they pay even though they are too poor to pay income tax;
- to permit better control over the total provincial-municipal tax level through deliberate integration; and
- to replace present provincial tax relief grants and subsidies (such as the basic shelter exemption grants) with a single system reflecting the ability-to-pay of families in different economic circumstances.

The tax credit system the Ontario Government is advancing recognizes the importance of minimizing additional calculations and complexity in the income tax form itself, and of minimizing extra administration and collection costs. Accordingly, the only additional requirement of taxpayers would be substantiation of property tax actually paid (or 20 per cent of annual rent) via rent receipts or tax bills. The only additional burden on the collection machinery would arise from increased numbers of Ontario taxfilers, since all

tax units would be required to file an annual return in order to qualify for provincial credits. Ontario is prepared, moreover, to bear any additionsl costs arising from administration of the provincial tax credit system.

The structure of our tax credits themselves also is simple but effective. Thus, we envisage a total credit scheme composed of a property tax credit and a sales tax credit. The sales tax credit would assume the form of a flat $10 for the taxfiler plus $10 for each dependant, minus one per cent of taxable income. This structure produces maximum impact on low-income families and a smooth tapering off up the income scale. Thus, the sales tax credit would be $40 for a family of four living on an income of $3,500, tapering off gradually to zero when income reaches $7,500. Such a $40 sales tax credit would refund the sales tax on $800 of taxable purchases, which along with the existing exemption on food and other necessities means that our low-income families would be completely sheltered from the burden of our retail sales tax.

The property tax credit would have a similar design, consisting of a flat $100 for the taxfiler plus 10 per cent of actual property taxes paid minus one per cent of taxable income. This design generates maximum impact on low-income families and a gradual tapering off up the income scale, but also means that the property tax credit increases as actual property tax (or rental equivalent) increases. These Ontario tax credits would be calculated and shown on the annual income tax form and would be fully refundable to

taxfilers whose tax credit entitlement exceeded their personal income tax liability.

An Ontario property tax and sales tax credit system along these lines would entail refunds and reductions in income taxes in the order of $150 to $200 million, or about the same magnitude as the costs of present provincial tax relief grants. The pattern of total tax incidence, however, would be considerably more equitable. Moreover, any increased costs in income tax collection would be offset by administrative savings from eliminating our present tax relief programs. In future, we would consider extending provincial credits to other areas as well, once the property tax and sales tax credits are functioning smoothly. Health premium assistance and low-income housing subsidies are two examples of provincial programs which could potentially be replaced by income tax credits. In this way, tax reform will reach beyond the personal income tax itself and achieve comprehensive redistribution of the total tax burden bearing upon Ontario citizens.

6. A Federal-Provincial Tax Commission

Over the past three years, Ontario has suggested a number of times the desirability of establishing a Federal-Provincial Tax Commission to handle income tax collection and administration for

both the provinces and the federal government.[1] There is a strong case for such a new institution in place of the income tax division of the Department of National Revenue. First, it would be a concrete recognition that the provinces have a positive not merely a passive role in the income tax field. Had such an institution been in existence during the recent process of tax reform, it would have made possible greater provincial participation in the basic design of the income tax reforms themselves. Second, it would facilitate implementation of independent provincial tax decisions such as the recent Ontario decision to reduce personal income tax. Under the present apparatus, there apparently is great difficulty in simply putting such a tax cut into effect. Third, innovations such as provincial tax credits inevitably will require much more flexible tax collection agreements and a high degree of federal-provincial co-operation in the adminstration of income taxation in the future. The point is that departures in provincial income taxation from the federal norm need not involve separate administration and collection and the filing of separate income tax forms. If we are to work in harmony under the new tax system and continue with a single agency to deal with taxpayers themselves, it is imperative, therefore, that the tax collection framework and machinery be reformed to work effectively for the provinces as well as the federal government.

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1. See, The Reform of Taxation and Government Structure in Ontario op.cit., p.27; and Staff Paper, Intergovernmental Policy, Co-ordination and Finance, (Toronto: Department of Treasury and Economics, May, 1971), pp. 20-23.

7. Summing Up

National tax reform must serve Canadian taxpayers and Canadian businesses well in the years ahead. The job of reform cannot be set aside until we have developed a new tax structure in Canada which distributes total tax burdens fairly, preserves competitive Canadian businesses, promotes economic growth and responds to the needs of both levels of government. We believe that the proposals and ideas advanced by Ontario today will move us closer towards these objectives.

To recapitulate briefly Ontario's views and policies at this critical point in the resolution of the tax reform process:

- We urge the federal government to withdraw the international provisions of Bill C-259 and to revise them in the light of current international realities.

- We do not intend to incorporate into Ontario's corporations tax legislation the business tax provisions of Bill C-259 until we are fully confident of their soundness, workability and impact.

- We urge the federal government to unconditionally offer to collect a gift tax and succession duties on behalf of the provinces. Given the present uncertainty, however, we intend to legislate a gift tax capacity within our present succession duties legislation.

- We intend to establish a system of Ontario property tax and sales tax credits using the present income tax collection machinery, and are advancing an outline of our proposed tax scheme for consideration and response by the federal government.

- We recommend the establishment of a joint Federal-Provincial Tax Commission to ensure that the income tax collection machinery works effectively for the provinces as well as the federal government and with minimum inconvenience to taxpayers.

III FISCAL ARRANGEMENTS

1. Introduction

The current state of financial and economic relations between the federal and provincial governments makes it clear that it is time to reconstruct these relations. A very complex system has evolved which is patchy in design, capricious in detail, uncertain in ultimate benefits, and unrealistic for the seventies. This system is characterized by:

- a sharing of tax fields which bears no relation to spending responsibilities;
- supplementary equalization payments with uneven benefits;
- cost-sharing in major provincial functions involving a great variety of formulae and regulations;
- a heterogeneous tax structure;
- large federal programs with strongly regionalized impact and dubious long-run economic benefits; and
- cumbersome federal loan and grant programs to reduce unemployment.

Even computers could not sort their way out of all this, let alone tell us the combined social and economic costs and benefits, both in the short and the long run. Yet, it is of overriding importance to ensure that governments in Canada provide their services most efficiently and maximize the country's economic potential. The Government of Ontario takes the position that achievement of these objectives requires a fundamental change in the financial relations between the two senior levels of government.

2. Tax Sharing

As you will recall, the federal government has insisted for a number of years that no changes in tax sharing should be made or discussed until a new national tax structure was developed. Once the tax reform decisions had been made, the federal government indicated it would open discussions on this vital topic. Although the Ontario Government did not believe that tax sharing could be separated from tax reform, we reluctantly co-operated and concentrated our efforts on making a significant contribution towards the reform of the tax structure itself. However, now that we are two months away from a new income tax regime and on the threshold of a new fiscal arrangements period, the provinces are confronted with a de facto change in tax sharing through the reform process. Also, the provinces are denied the freedom to determine their own tax rates without penalty in the first year. The only federal concession appears to be a three-year revenue guarantee which is unsatisfactory in terms of period and formula, and which lacks the capacity to determine accurately the future yield of the present system, and hence could involve revenue losses to the provinces.

Under the present system, the provinces receive 75 per cent of wealth taxation and a standard 28 per cent of the individual income tax, excluding special taxes such as the O.A.S., S.D.T. and surtax levies. In its reforms, the federal government appears to assume that current estate taxes can be effectively replaced overnight by a capital gains tax. As the capital gains tax is submerged in the

income tax and only the income tax yields are guaranteed to the provinces (for a mere three years), the federal government, by repealing the estate tax, in fact reduces tax sharing for most provinces by the full 75 per cent of current wealth taxation. As for the income tax itself, the federal government has decided to assign to the provinces an effective share of 23 per cent of the new personal income tax field.[1] This is the closest approximation for the yield from the present 28 point abatement. However, while currently the provinces receive 28 per cent of the yield from any federal increases in the base of the income tax, future shares of such increases would be only 23 per cent. For example, under the current system the provinces would have received 28 per cent of the revenue from the addition of capital gains in the income tax base, compared to the 23 per cent they will receive under the new system.

Furthermore, the special concessionary federal tax with regard to distribution of accumulated pre-1972 business surpluses is not shared with the provinces. The effect of this federal policy will be to reduce the volume of future dividends which are subject to the shareable income tax. Also, this policy will erode the base for provincial capital taxes.

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1. The mathematics of the new tax sharing are as follows:

federal tax	100
provincial standard tax	30
total tax	130

provincial share $\frac{30}{130}$ = 23%.

In other words, through its basic tax reforms and its violation of the principle of tax sharing, the federal government will reduce the provincial share of the total income tax field and will regain for itself a predominant share of wealth taxation.

It is a matter of well-documented record that the heaviest burden of major public problems and expenditure priorities lies at the provincial-municipal level, while the federal government has the lion's share of government revenue.[1] Current and foreseeable economic conditions as well as emerging public priorities, related to urbanization and pollution, strongly accentuate this burden. The existing distribution of tax powers stands in stark contrast. This fundamental fiscal imbalance in our federal system and the nature of the present federal government position will make it improbable and extremely difficult to contain total tax levels within desirable limits. This is clearly an inadequate and intolerable position.

As we see it, the redefined sharing principle and the new income tax system will:

- encourage independent tax action and interprovincial tax differences;

- reduce the provincial share of income and wealth taxation;

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1. See, Report of the Tax Structure Committee to the Federal-Provincial Conference: Projections of Government Revenues and Expenditures, October 28, 1966, and subsequent updatings; and discussion in Hon. C.S. MacNaughton, "The Budgetary Framework", Ontario Budget 1968, (Toronto: Department of Treasury and Economics).

- leave the onus on the provinces to fill an equity gap in wealth taxation and assume primary responsibility to determine the ultimate tax level on resource industries;

- leave the onus on the fiscally weaker level of government to contain total tax levels; and

- force provinces to increase the income tax after three years to compensate for discontinued revenue guarantees.

These are grave implications. Their existence can only be explained by disregard for orderly intergovernmental finance and effective fiscal co-ordination.

The Ontario Government proposes that the federal and provincial governments completely renegotiate tax sharing for the immediate future. Such negotiations should be guided by the following objectives:

1. The provincial-municipal financial position should not be weakened relative to the current arrangements.

2. The provinces should receive at least a 28 per cent standard share of any increases in tax base, as would have been the case under the current system; if the revised system would create undue problems, the old abatement principle should be maintained.

3. The period for revenue guarantees should be more realistic and the guarantee itself more meaningful. A reliable verification system should be adopted, such as a reverse GITAN,[1] to estimate accurately what provincial tax yields would have been under the old system.

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1. That is to say, a tax model, such as Ontario's, should be used to simulate the revenue performance of the old tax system using the tax data available from the new tax system. Both the Ontario Government and the federal government have already used tax models in the opposite way, that is, to simulate the revenue performance of the new tax system on the basis of tax data available under the old system. See, Staff Paper, Analysis of the Federal Tax Reform Proposals, (Toronto: Department of Treasury and Economics, August, 1970); and, Staff Paper, Tax Reform and Revenue Growth to 1980, (Toronto: Department of Treasury and Economics, March, 1971).

4. Provinces should not be required to effect a tax increase at the end of the guarantee period merely to compensate for loss of guarantee. This would require a commitment by the federal government to reconsider formal tax shares. That is, the federal government should reduce its tax at the end of the guarantee period by the amount of the guarantee payments, so that the provinces can maintain their revenue position without raising total tax levels.

5. Most importantly, the chronic imbalance in the financial position of the two senior levels of government should be resolved through additional tax sharing. Given the importance of holding down the total level of taxes in the country, provinces should not be forced by inadequate tax sharing to carry a disproportionate share of total government borrowing.

3. Cost Sharing

The serious fiscal mismatch between the federal and provincial governments is further illustrated by the very existence of an elaborate system of cost-sharing. Obviously, the provincial governments have the most pressing and costly responsibilities, while the federal government has a much superior revenue-generating capacity. Many of the shared-cost programs were initiated originally with a view to establish minimum national standards of service and portability of benefits. Others are mere financial transfers in lieu of tax sharing. In some important cases, the provinces were almost forced into costly programs merely because the federal government chose to use its surplus revenue capacity by inventing large programs in areas of provincial jurisdiction.

By their very nature, shared-cost programs have acquired a unique position outside of the normal processes of priority setting and budgetary control at both the federal and provincial levels of government. They are replete with a variety of formulae and regulations, which render administration cumbersome and inefficient. We have reached the point now where the federal government is desperately trying to limit or reduce its commitments to these programs, usually by changing the established sharing formulae. Yet, by continuing these programs as shared-cost programs, the federal government in fact denies the provinces the critical freedom to achieve greater cost efficiency. For example, Ontario is in the process of rationalizing its health insurance programs towards improved and more efficient delivery of services. Yet, the very existence of a separate federal formula covering medical and hospital insurance plus the federal refusal to make nursing homes shareable will cause unnecessary and costly administration and impede our efforts to achieve greater efficiencies.

The Ontario Government is confident that minimum national standards are well entrenched in the major established programs, such as hospital insurance, medicare and the Canada Assistance Plan. Continuing federal regulatory involvement, therefore, is merely an impediment to greater efficiency, cost control and improved services. The past proliferation of shared-cost programs has left us with an antiquated structure of a large number of mini-programs and a few very costly maxi-programs. In all these programs, we have had enough cost

experience now to determine their anticipated total cost streams and equivalent tax transfers. The only legitimate federal role in these established provincial programs, therefore, is a financial one and this should be rationalized through tax sharing.

The Ontario Government, therefore, proposes that all existing shared-cost programs be discontinued and that provincial governments assume full financial responsibility in exchange for an equivalent transfer of financial resources. For our part, we would prefer to receive these compensatory financial resources in the form of additional tax points. This change would neither improve the financial position of provincial governments, nor worsen that of the federal government. However, it would eliminate many anomalies, it would enhance accountability and flexibility, and it would obviate the need for excessive administrative machinery at both levels of government. It would promote efficiency and avoid periodic intergovernmental arguments about individual programs and items. This long overdue reform would result in greatly simplified intergovernmental finance and much greater uniformity of provincial budgets.

Ontario feels strongly about the need to achieve this restructuring. In the absence of full agreement from all governments concerned, Ontario is prepared to reach this objective for itself by assuming complete responsibility for the existing shared-cost programs in exchange for fiscal equivalence.

4. Equalization

As we are all aware, the establishment of a system of equalization payments was a major accomplishment of the 1957 Federal-Provincial Conference of First Ministers. These payments constituted a fundamental departure from previous federal unconditional grants in that they reflected differences in fiscal capacity between the Canadian provinces. This is achieved by a formula designed to equalize per capita revenue yields of the provinces in terms of a representative or "national average" tax system.

We have now had about fifteen years experience with this new approach to equalization. During this period generous adjustments have been made to the formula. Starting in 1967, a significant broadening of the tax fields to be equalized greatly increased the level and rate of growth of these payments over the period. It is estimated that in the 1971-72 fiscal year, equalization payments by the federal government will reach about $950 million.

It is being proposed that the existing formula be incorporated into the next five-year Fiscal Arrangements Act commencing in April 1972. If this course is followed, it is estimated that equalization payments will amount to about $1.9 billion by 1976-77. It is also suggested by some provinces that municipal revenues should be included for purposes of calculating equalization entitlements. This inclusion would mean that equalization payments to recipient provinces would jump to about $1.6 billion in 1972-73, rising to $2.7 billion in 1976-77.

The Ontario Government has consistently recognized and supported the need for an adequate level of fiscal redistribution in the Canadian federal system. This is still our position. At the same time we must reiterate our concern that Canada, at this point in its history, is facing difficult economic problems. We agree that regional disparities are a matter of continuing concern; but so are maximization of economic growth and output. If Canada is to achieve a growth rate compatible with the increase in its labour force and consistent with maintaining our standard of living, the nation must exploit its economic potential at the points of highest productivity and growth. We feel, therefore, that any significant increase in the "fiscal drag" in the provinces with high economic potential will ultimately be detrimental to all Canadians.[1] We are also conscious of certain limitations in the current approach to equalization. For instance, the existing formula would fail to recognize the sudden and adverse impact of a more restrictive national resource policy on provinces such as Alberta, with the result that the cost of policies inspired by national interest would be borne on a narrow and inequitable basis.

It is in this spirit of national interest that the Ontario Government would like to see an early assessment of the economic implications of the present equalization formula. Such a review

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1. For documentation and discussion of this question see, Hon. C.S. MacNaughton, "The Structure of Public Finance in Ontario", Ontario Budget 1970, op. cit.; and Hon. W. Darcy McKeough, "New Directions in Economic Policy Management in Canada", Ontario Budget 1971, op. cit.

should examine the relationship between equalization payments and other federal transfers. In particular, we should assess the combined economic effects of federal programs such as DREE, ARDA, FRED, CMHC, revenue equalization payments and other federal transfers. It is now becoming clear, for example, that DREE is de-emphasizing economic development programs in favour of provincial and municipal public projects, including schools, in some provinces.

Economic growth is basic to all of our social objectives. For this reason, we believe that an increase in interregional transfers can only be justified if the public expenditure of these funds provides greater benefits to Canada than if they had been left in the private sector of the economy. Again, Ontario does not question the need for large-scale interregional transfers. Ontario has and always will support the objective of reducing interregional disparities. But, we are apprehensive that the proliferation and expansion of federal regional spending programs lacks co-ordination, increases bureaucratic intervention in the working of the economy, and generates unnecessary administrative costs.

The Ontario Government hopes, therefore, that the federal government and our provincial partners will be prepared to give serious consideration to these matters prior to renegotiating the new Fiscal Arrangements Act. In suggesting this, we must stress that the record of the past five years has been a dismal one. Regional economic disparities in Canada have not been meaningfully

reduced in spite of the significant increases in federal transfers of all types to the weaker provinces. We are concerned that the economic resilience of the stronger regions is being impaired without sufficiently enhancing the economic viability of the weaker regions.

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